



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 12/31/2003

GAIN Report Number: VE3016

Venezuela

Sugar

Annual

2003

Approved by:

Leanne E. Hogie

U.S.Embassy Venezuela

Prepared by:

Mora Paiva

Report Highlights:

Venezuela consistently imports sugar to supplement domestic production, but severe shortages occurred in November of 2003 due to delays in the harvest and in issuance of import permits. Sugar availability has improved, but purchases at the controlled price are restricted. Sugar production is forecast down significantly from our earlier estimates as area has declined and in increases in production efficiencies have not been possible as investment in upgrading equipment has been limited. Price controls also provide a disincentive to invest in this sector. Imports are forecast to continue at roughly the same level.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Caracas [VE1]
[VE]

Table of Contents

| | |
|---------------------------------|-----------|
| Executive Summary..... | 3 |
| PRODUCTION | 4 |
| POLICY..... | 4 |
| STOCKS | 5 |
| CONSUMPTION..... | 5 |
| TRADE | 6 |
| Prices Tables | 12 |
| Import Series Table..... | 13 |

Executive Summary

Venezuela consistently imports sugar to supplement domestic production, but severe shortages occurred in November of 2003 due to delays in the harvest and in issuance of import permits. Sugar availability has improved, but purchases at the controlled price are restricted. Sugar production is forecast down significantly from our earlier estimates as area has declined and increases in production efficiencies have not been possible as investment in upgrading equipment has been limited. Price controls also provide a disincentive to invest in this sector. Imports are forecast to continue at roughly the same level.

This report contains revisions going back to 1999, primarily sparked by a new analysis of all the trade data using a mix of importer and exporter data. Venezuela data, especially production and stock statistics have become extremely difficult to find, as most organizations stopped publishing data in the last several years. Therefore forecasts are based primarily on trade data, estimates of consumption trends, and piece-meal information from government and industry sources on production.

PRODUCTION

Venezuela's major sugarcane harvest runs from November through May, with the bulk of the harvest from December to February. A second smaller "winter" crop is harvested from June through November. Most of the cane produced in Venezuela is grown by independent farmers on small and medium sized holdings and sold to the mills. Grower prices are negotiated by FESOCA (Venezuelan Sugarcane Growers Association) and UPAVE (Venezuelan Sugar Producers Association). Mills pay on a sugar content basis, with adjustments provided if retail sugar prices increase.

Cane area for 2002/03 is estimated at 99,000 hectares and forecast to increase in 2004 in a reaction to the extreme sugar shortage in November. While Venezuela has an excellent climate and topography for sugar production, high production costs and relatively low yields have kept production constrained. Lack of affordable financing and land tenure problems have also plagued this sector. Until the devaluation of the local currency (Bolivar) in February 2002, importing sugar was much more attractive than increasing domestic production. While economic incentives have changed, we expect those changes will only slowly be reflected in increased production.

Little effort was made to develop better cane varieties or to introduce modern field management techniques. As a result, sugar content of Venezuelan cane is among the lowest in South America. Due to the recent introduction of new cane varieties, some small improvements in average sugar content have occurred. Currently average yields are around 64 tons per hectare and sugar recovery rates are about 8 percent.

Estimating production levels has become very difficult since the few published data series are contradictory. In addition, the Venezuelan Farmers Association (FEDEAGRO) stopped publishing any numbers in 2000 due to the unreliability of information, and the local industry group, Venazucar, no longer has a publicly available series. Enter production text here

Inputs

Cane production in Venezuela is mainly under irrigation by both conventional and pivot systems. Although water availability is not a major problem, power costs are an important part of total production costs because of the use of water pumps. In addition, to the extent that the sector needs imported inputs, such as fertilizer, replacement machinery parts, pesticides etc., those costs have soared in 2003 due to the devaluation and the foreign currency control put in place in January. The Foreign Exchange Control Board (CADIVI) was slow in initiate operations, and without dollars at the official exchange rate of Bs. 1,600 to the dollar, importers were forced to look for dollars on the black market at rates of up to Bs. 3,000 to the dollar, dramatically increasing costs. Most agricultural inputs are not on the CADIVI list to obtain dollars at the preferential rate, so production costs will remain high.

POLICY

There has been an on-going series of plans to re-nationalize the sugar industry, but other than the announcement in 2002 of the creation of a state-owned sugar mill in the state of Barinas, Complejo Adroindustrial Azucarero Ezequiel Zamora, most sugar production is in private hands. The GOV considers the sugar sector as a vital sector both as a source of employment and due to its plans to achieve self-sufficiency in traditional crops. The GOV has discussed many programs of production incentives such as expanding credit, developing more productive and disease resistant varieties of sugar cane, and providing extension services aimed at improving cultivations practices. However, there has been limited follow-through.

Until 1989 much of the sugar industry was state owned, and cane prices were guaranteed by the Government of Venezuela. Then the Venezuelan Investment Fund was established to manage the sale of the six state-owned mills and the plantations. At that time 13 other private mills were also operating. The state mills were sold to private companies between 1989 and 1994. By 1999 the number of Venezuelan sugar mills had dropped to 13, with seven of those in danger of closing operations. In 2003, there are 15 main mills functioning, the largest being Portuguesa, Palmar, Santa Elena, Rio Turbio, and Pastora.

STOCKS

In the late 1990's Venezuela imported significant quantities of sugar in reaction to the sugar ban crisis that occurred at the end of 1996 and beginning of 1997 (For more information see Report VE71901 and VE71902). Over the past 20 years, stock levels of sugar have been heavily influenced by the protectionist policies of the various Administrations. In 1999 stocks reached over 5 months of use as retailers, wholesalers and soft drink manufacturers were importing large quantities of sugar in order to have a sufficient and reliable supply.

Stocks in the attached tables will tend to show quantities for 2 to 3 months of use, since the harvest in Venezuela doesn't start until mid-November, and the PS&D table ends in August. Stocks of 264,000 tons at the end of August 2003, were drawn down significantly this year prior to the November harvest. The government restrictions on import permits, and a delayed harvest led to a short-lived crisis in the November of 2003 when sugar was not available in the stores for about 2 weeks. As the harvest (zafra) began in late November the crisis eased, but stores continued to ration retail sales to 2-3 kilos per person

CONSUMPTION

Currently, about two thirds of domestic sugar consumption is for household use, with the rest going to the industrial sector. Industrial consumption is dominated by the soft drink industry. In Venezuela the soft drink industry was growing rapidly and demanding more sugar. The economic recession of 2003 is tempering demand, and if sugar prices are increased in 2004 demand could actually drop. The common wisdom is that Venezuelans now consume about 75,000 tons of sugar monthly, or about 900,000 tons a year, but there are no reliable data series, and post is estimating consumption slightly lower based on historical trends and data.

The Venezuelan soft drink industry generally uses 100% sugar without any fructose or other sweetener for its non-diet beverages. Both Coca Cola Company and Pepsi-Cola have large investments in the country. There is limited use of sugar as an input into animal feed rations.

Manufacturers of products that have a significant sugar content, such as cookies, crackers, and confectionery products, are adjusting their demand for sugar as they are faced with rising prices. Currently the country has only one major cookie manufacturer, Nestle.

Prices

Given the Venezuelan population preferences for refined white sugar, this product maintains high prices within the market. Families still prefer refined white sugar for cooking rather than brown sugar as in other neighboring countries (Colombia and Ecuador).

Venezuelan retail sugar prices started 2002 at 76 cents/kilo, but following the devaluation in February of that year hovered around 57 cents/kilo. Prices spiked in February 2003 during the strike, and at that time sugar was one of the products placed on the price control list. See VE3008 for information on price controls. The retail price for a kilo of refined sugar was set at Bs. 900 (57 cents at the official exchange rate) and has not been changed.

Because farm-gate prices for sugarcane growers are tied to the final prices received for refined sugar, profit margins have been falling for both the growers and the millers. FESOCA has been lobbying the government to increase the retail price to Bs. 1600 per kilo, but in general the GOV has been reluctant to raise consumer prices.

Beginning in March 2003, a new product called "light refined sugar" began appearing in store shelves since it was not under price control, and was selling for Bs. 1300/kilo. But by November, neither regular nor "light" products were available in the traditional distribution chain (supermarkets, hypermarkets, and wholesalers). Street vendors (buhoneros) had sugar but were selling it at up to Bs. 2500/kilo. The other source that had sugar in limited quantities was the relatively new government stores called MERCAL, where products are sold at or below the controlled price.

TRADE

The majority of sugar imports come from Colombia due to geographic proximity. Guatemala, Ecuador, Nicaragua and the U.S. have also been recent suppliers of sugar according to Venezuelan data. Most sugar is imported raw, as there is sufficient refining capacity in the country. Trade agreements between Venezuela and other Latin American countries with preferential tariff rates also affect trade flows. Trade data in this report has been revised to reflect revised GOV import statistics. Post is also utilizing Colombian export statistics in our trade matrices.

Most recently, the foreign exchange control limits put in place in February 2003 limit access to sugar imports, as importers must go through an additional step of getting approval from CADIVI in order to get dollars at the preferential exchange rate.

Imports in 2003 included small levels of imports by a reconstituted state trading entity, CASA. Data is not readily available, but sources indicate that CASA imported at least 17,000 tons of sugar in 2003, mainly from Cuba, and has plans to continue to import.

Imports for 2004 are forecast at 270,000 tons, though even higher levels may be needed if domestic production does not rebound. The GOV maintains a tight control over sugar imports, and we may see a repeat of the 2003 spot sugar shortages if import permits are not issued in a timely fashion.

Venezuela also traditionally exports some raw and refined sugar. The refined sugar has mainly gone to Colombia due to the fact that one of the Venezuelan sugar mills, CAZTA is located near the Colombian border and can often import raw sugar and export refined depending upon price movements. The Ministry of Production and Commerce (MPC) will occasionally prohibit the export of domestically produced agricultural products in order to avoid domestic short falls. The Government of Venezuela does not provide any special incentives for sugar cane or refined sugar exports.

Tariff Changes

Raw and refined sugar coming from the Andean Community enters Venezuela duty free. Bilateral agreements signed between Venezuela and Guatemala, Nicaragua and El Salvador also gives sugar from these countries duty free entry.

The present base tariff on sugar is 15 percent ad valorem calculated on the CIF price basis. Sugar is included in the Andean Community price-band variable-levy system. This tariff system was implemented by Venezuela for sugar and several other agricultural products in September 1995. The base tariff is raised if the CIF price is below a floor price, and lowered

if prices surpass a ceiling price. White and refined sugar have different prices within the price band system. Floor and ceiling prices are based on average prices for white sugar, contract No. 5 FOB London during the last five years.

Tariff Exoneration

On February 11, 2003, the Venezuelan government provided total tariff and tax exoneration for sugar imports (HS 1701.11.90) citing food security concerns as a consequence of the two-month national strike. However, imports must first obtain a certificate of insufficient domestic production, issued by the Ministry of Agriculture and Lands, before they are eligible to receive the exoneration. This change was due to expire in August 2003, has been renewed and is valid until April 2004, but post has been informed that importers are receiving this benefit.

TRQs

On November 23, 1999, the GOV published a resolution in the Official Gazette # 36,835 announcing the tariff rate quota (TRQ) for 132,013 tons of sugar with a tariff rate capped at 40 percent in conformance with Venezuela's WTO commitment. On October 30, 2003, the GOV extended the validity of the TRQ until October 2004 (Official Gazette # 37,807.) The 40 percent rate is to be applied only when the tariff resulting from the Andean price band calculation is higher than that rate. The TRQ should be allocated through an import license regime specified in an Official Notice published in a local newspaper. This notice has been published, but because of the unusual situation of the tariff exoneration cited above, it is not clear how licenses are being issued. However it appears that the GOV is handling the issuance of these licenses in a discretionary and non-transparent manner, as it does for TRQs for other agricultural products.

PSD Tables

| PSD Table | | | | | | | |
|------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-----------|
| Country | Venezuela | | | | | | |
| Commodity | Centrifugal Sugar | | | | (1000 MT) | | |
| | 2002 | Revised | 2003 | Estimate | 2004 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 09/2001 | | 09/2002 | | 09/2003 | MM/YYYY |
| Beginning Stocks | 386 | 311 | 423 | 391 | 334 | 267 | (1000 MT) |
| Beet Sugar Production | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Cane Sugar Production | 640 | 550 | 650 | 500 | 630 | 550 | (1000 MT) |
| TOTAL Sugar Production | 640 | 550 | 650 | 500 | 630 | 550 | (1000 MT) |
| Raw Imports | 288 | 16 | 180 | 230 | 210 | 250 | (1000 MT) |
| Refined Imp.(Raw Val) | 0 | 389 | 1 | 41 | 1 | 20 | (1000 MT) |
| TOTAL Imports | 290 | 405 | 151 | 271 | 211 | 270 | (1000 MT) |
| TOTAL SUPPLY | 1316 | 1266 | 1224 | 1162 | 1175 | 1087 | (1000 MT) |
| Raw Exports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Refined Exp.(Raw Val) | 3 | 40 | 0 | 40 | 0 | 20 | (1000 MT) |
| TOTAL EXPORTS | 3 | 40 | 0 | 40 | 0 | 20 | (1000 MT) |
| Human Dom. Consumption | 889 | 830 | 885 | 850 | 995 | 840 | (1000 MT) |
| Other Disappearance | 1 | 5 | 5 | 5 | 5 | 5 | (1000 MT) |
| Total Disappearance | 890 | 835 | 890 | 855 | 1000 | 845 | (1000 MT) |
| Ending Stocks | 423 | 391 | 334 | 267 | 175 | 222 | (1000 MT) |
| TOTAL DISTRIBUTION | 1316 | 1266 | 1224 | 1162 | 1175 | 1087 | (1000 MT) |

| | | | | | | | |
|-----------------------|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-----------|
| PSD Table | | | | | | | |
| Country | Venezuela | | | | | | |
| Commodity | Sugar Cane for Centrifugal | | | | (1000 HA)(1000 MT) | | |
| | 2002 | Revised | 2003 | Estimate | 2004 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 09/2001 | | 09/2002 | | 09/2003 | MM/YYYY |
| Area Planted | 0 | 104 | 0 | 99 | 0 | 107 | (1000 HA) |
| Area Harvested | 0 | 104 | 0 | 99 | 0 | 107 | (1000 HA) |
| Production | 0 | 6875 | 0 | 6250 | 0 | 6875 | (1000 MT) |
| TOTAL SUPPLY | 0 | 6875 | 0 | 6250 | 0 | 6875 | (1000 MT) |
| Utilization for Sugar | 0 | 6875 | 0 | 6250 | 0 | 6875 | (1000 MT) |
| Utilizatr for Alcohol | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TOTAL UTILIZATION | 0 | 6875 | 0 | 6250 | 0 | 6875 | (1000 MT) |

| | | | | | | | |
|------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-----------|
| PSD Table | | | | | | | |
| Country | Venezuela | | | | | | |
| Commodity | Centrifugal Sugar | | | | (1000 MT) | | |
| | 1999 | Revised | 2000 | Estimate | 2001 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 09/1998 | | 09/1999 | | 09/2000 | MM/YYYY |
| Beginning Stocks | 238 | 245 | 398 | 375 | 322 | 272 | (1000 MT) |
| Beet Sugar Production | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Cane Sugar Production | 535 | 600 | 637 | 610 | 582 | 582 | (1000 MT) |
| TOTAL Sugar Production | 535 | 600 | 637 | 610 | 582 | 582 | (1000 MT) |
| Raw Imports | 5 | 355 | 208 | 2 | 303 | 28 | (1000 MT) |
| Refined Imp.(Raw Val) | 350 | 30 | 22 | 178 | 34 | 290 | (1000 MT) |
| TOTAL Imports | 355 | 385 | 230 | 180 | 337 | 318 | (1000 MT) |
| TOTAL SUPPLY | 1128 | 1230 | 1265 | 1165 | 1241 | 1172 | (1000 MT) |
| Raw Exports | 50 | 10 | 10 | 5 | 10 | 0 | (1000 MT) |
| Refined Exp.(Raw Val) | 10 | 40 | 10 | 40 | 10 | 40 | (1000 MT) |
| TOTAL EXPORTS | 60 | 50 | 20 | 45 | 20 | 40 | (1000 MT) |
| Human Dom. Consumption | 669 | 800 | 922 | 843 | 834 | 816 | (1000 MT) |
| Other Disappearance | 1 | 5 | 1 | 5 | 1 | 5 | (1000 MT) |
| Total Disappearance | 670 | 805 | 923 | 848 | 835 | 821 | (1000 MT) |
| Ending Stocks | 398 | 375 | 322 | 272 | 386 | 311 | (1000 MT) |
| TOTAL DISTRIBUTION | 1128 | 1230 | 1265 | 1165 | 1241 | 1172 | (1000 MT) |

| | | | | | | | |
|-----------------------|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-----------|
| PSD Table | | | | | | | |
| Country | Venezuela | | | | | | |
| Commodity | Sugar Cane for Centrifugal | | | | (1000 HA)(1000 MT) | | |
| | 1999 | Revised | 2000 | Estimate | 2001 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 09/1998 | | 09/1999 | | 09/2000 | MM/YYYY |
| Area Planted | 117 | 112 | 117 | 111 | 117 | 113 | (1000 HA) |
| Area Harvested | 117 | 112 | 117 | 111 | 117 | 113 | (1000 HA) |
| Production | 6950 | 7500 | 6950 | 7625 | 6950 | 7275 | (1000 MT) |
| TOTAL SUPPLY | 6950 | 7500 | 6950 | 7625 | 6950 | 7275 | (1000 MT) |
| Utilization for Sugar | 6950 | 7500 | 6950 | 7625 | 6950 | 7275 | (1000 MT) |
| Utilizatr for Alcohol | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TOTAL UTILIZATION | 6950 | 7500 | 6950 | 7625 | 6950 | 7275 | (1000 MT) |

Prices Tables

Prices for Refined Sugar (kilo)
In Dollar Terms

| Month | 2002 | 2003 | Change |
|-------|------|------|--------|
| Jan | 0.76 | 0.51 | -32.9% |
| Feb | 0.66 | 0.66 | 0.0% |
| Mar | 0.69 | 0.57 | -17.4% |
| Apr | 0.76 | 0.56 | -26.3% |
| May | 0.71 | 0.56 | -21.1% |
| Jun | 0.58 | 0.57 | -1.7% |
| Jul | 0.55 | 0.57 | 3.6% |
| Aug | 0.57 | 0.57 | 0.0% |
| Sep | 0.56 | 0.57 | 1.8% |
| Oct | 0.57 | 0.58 | 1.8% |
| Nov | 0.62 | n.a | n.a |
| Dec | 0.50 | n.a | n.a |

Source: National Statistics Institute-INE

Prices for Refined Sugar (kilo)
in Bolivar Terms

| Month | 2002 | 2003 | Change |
|-------|--------|----------|--------|
| Jan | 575.44 | 912.58 | 58.6% |
| Feb | 587.82 | 1,050.71 | 78.2% |
| Mar | 651.82 | 909.41 | 39.5% |
| Apr | 669.25 | 902.11 | 34.8% |
| May | 683.11 | 902.12 | 32.1% |
| Jun | 692.84 | 905.78 | 30.7% |
| Jul | 731.54 | 906.23 | 23.9% |
| Aug | 779.10 | 908.24 | 16.6% |
| Sep | 817.54 | 914.44 | 11.9% |
| Oct | 832.22 | 925.57 | 11.2% |
| Nov | 841.81 | n.a | n.a |
| Dec | 848.50 | n.a | n.a |

Source: National Statistics Institute-INE

Import Series Table

**Venezuelan imports
(1,000 mt-raw+refined)**

| | 1996/97 | 1997/98 | 1998/99 | 1999/2000 | 2000/01 | 2001/02 | 2002/03 |
|--------------|------------|------------|------------|------------|------------|------------|------------|
| Colombia | 168 | 329 | 280 | 115 | 258 | 318 | 225 |
| Guatemala | 67 | 165 | 96 | 49 | 28 | 56 | 6 |
| Mexico | 14 | | | | 1 | | |
| El Salvador | 6 | | | | | | |
| Cuba | 14 | | | | | | 17 |
| Brasil | | | 3 | 1 | 2 | 2 | 4 |
| Ecuador | | | | 14 | 3 | 4 | |
| US | | | | | 7 | 5 | 14 |
| France | | | | | 2 | | |
| Nicaragua | | | 5 | | 2 | 13 | |
| Spain | | | | | 15 | | |
| Bolivia | | | 1 | | | 3 | 5 |
| Uruguay | | | | | | 4 | |
| others | | | | 1 | | | |
| total | 269 | 494 | 385 | 180 | 318 | 405 | 271 |

Source: INE, Venezuelan import statistics for all countries, except Colombia.
Colombian data is based on export statistics in World Trade Atlas